MEXICO

AGRI-FOOD EXPORT MARKET ASSESSMENT

December 1991

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MEXICO

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NOVEMBER 1991

The *Agri-Food Export Market Assessment* reports are published by the International Programs Directorate of the Agri-Food Development Branch, Agriculture Canada

Objective

To provide client groups, provincial contacts and federal officials with relevant, timely and up-to-date market intelligence and assessment of agri-food export opportunities; and to integrate priorities emerging from Agri-food Industry Market Strategies (AIMS) into a country focused perspective

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Agriculture Canada 1991

MEXICO

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MEXICO AT A GLANCE

BASIC INFORMATION

Name:	Mexico
Land Area:	1,958,201 sq.km
Boundaries:	US N, Gulf of Mexico E, Guatemala S, Pacific ocean W.
Population:	85 million (1990)
Capital City:	Mexico City
Major Cities:	Mexico City, Monterrey, Guadalajara.
Ethnic:	55% Mestizo
Religion:	90% Catholic
Language:	90% Spanish

ECONOMIC INDICATORS

External Debt:	$ 96 Bln US (89)
Per capita GDP:	$ 2 879 US (90)
Inflation Rate:	30 % (90)
Currency:	Pesos = $0.000383 CAN
Ag-Population:	31.15 % (89)
Ag-GDP:	7.4% (89)

POLITICAL OUTLINE

Head of Government:	Carlos S. de Gortani
Agriculture Minister:	Carlos H. Gonzalez
International Trade:	Jaime Serra Puche
Canadian Ambassador:	David Winfield

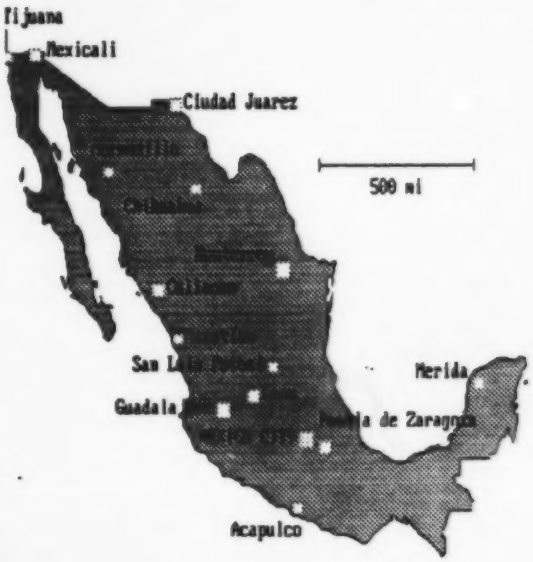
Note: Minister McKnight visited Mexico in November 1991

AGRI-FOOD TRADE OVERVIEW

Imports (1989) ($ million US)	World	Top Supplier
Milk & Cream Preservd.	$ 466	USA
Maize, Unmilled	$ 432	USA
Other Cereal	$ 322	USA
Soya Beans	$ 319	USA
Refined Sugar	$ 144	USA
Agri-Food Imports	**$ 3 837**	

Top Canadian Agri-Food Exports (1990) ($ million CAN)	1989	1990
Dairy Prods. Eggs	$ 53.456	$ 72.847
Meat & Edible Offal	$ 17.774	$ 14.833
Grains, Unprocessed	$ 5.171	$ 9.080
Live Animals	$ 10.241	$ 8.845
Edible Vegetables	$ 7.111	$ 7.046
Agri-Food Exports	**$157.756**	**$116.061**

Data sources: Reuters, Universal Almanac, Statistics Canada. Office of Trade Evaluation, AFDB, Agriculture Canada (1-92).



1. AGRICULTURAL PROFILE OF MEXICO

1.1 Importance of Mexico

Although Mexico was a destination for only 1% of all Canadian agri-food exports, it plays an important role in North American trade and agriculture. Mexican agricultural imports totalled $3.8 billion (US) in 1989, up 28% from 1988. With the decrease in its debt burden from 57% of its gross domestic product in 1988 to 40% in 1990, the country's ability to import is growing. Mexico is Canada's second leading agri-food market in Latin America after Brazil. Another consideration is that Mexico's population is triple that of Canada and is growing at 2.1% per annum.

The Canadian share of Mexico's U.S.-dominated agricultural imports in 1989 was 3.5%, amounting to $157.7 million[1]. The United States had a 74% share of Mexico's agricultural imports in 1989. Soybeans and corn made up three quarters of the imports from the United States. In 1990, Canadian exports dropped to a level of $116.1 million, primarily because our canola exports to Mexico plunged from $59.3 million in 1989 to nil. The canola market disappeared when Mexico opted for lower-priced Lear rapeseed from Poland. Excluding canola, Canadian agri-food exports to Mexico actually increased by 13% in 1990.

Mexico exported agri-food products to Canada valued at $175.5 million in 1990. These exports consisted mainly of fruits, vegetables and coffee. Canada had an agricultural trade deficit with Mexico in 1990. During the eighties, Mexico's agricultural exports to Canada ranged from 15 to 40% of Canada's agri-food exports to Mexico, for an average of 25%. Coffee is Mexico's main agricultural export to the United States.

1.2 Agricultural Strengths and Weaknesses

Mexico's agricultural sector accounts for 9% of GNP, but this share is declining with the growth of the economy. Agriculture is still an important sector; about a third of the population still live and work in rural areas.

Perhaps the greatest strength of Mexican agriculture is its land base (197 million hectares including crop and pasture land) and diversity of climate. Wheat, sorghum, cotton and vegetables are grown in the northern regions, while the more tropical south produces sugar cane and plantation crops. Water continues to be the main constraint to Mexico's agricultural expansion, followed by an antiquated land tenure system. Only 23 million hectares are under annual crop cultivation, 70% of which is grains and oilseeds. Most agricultural activity is concentrated in the northeast, central and Pacific areas of Mexico. The southern regions have more water but are underdeveloped. If more efforts were directed to the south, Mexico would be in a better position to supply North America's main imports of traditional plantation commodities. Mexico has recently undergone four seasons of drought, resulting in lower-than-average production of grains, oilseeds and pulses, especially corn, wheat, rice, soybeans and dry beans. Under more normal climatic conditions, crop production should increase. The livestock sector, located mainly in central and northern Mexico, has experienced problems due to poor economic conditions, controlled pricing at the retail level, competition from the United States, and an inefficient marketing

[1] Dollar figures are in Canadian Currency unless otherwise noted.

system. A cholera outbreak in 1988-89 hindered development of the hog industry. A large amount of two-way trade in cattle exists between Mexico and the United States. Mexico exports feeder cattle to its northern neighbour and imports slaughter and breeding cattle.

1.3 Farm and Food Policy

Mexican food policy makers face several difficult problems. Small farmers (campesinos) still believe they have the right to receive a plot of land, even though the last two presidents have told them there is no more productive land to distribute. The existing ejidal system does not produce sufficient food to feed the ejidatario, nor does it make a meaningful contribution to the nation's food requirements. Reasons for this include: production inefficiency caused by the small size of the ejidos, inadequate rural funding, uncertainty about land tenureship, lack of an effective agricultural extension system, and guaranteed prices that often do not cover cash costs of production. At the same time, private farmers own less than 20% of the agricultural land but account for about 80% of total production. Another issue that contributes to this policy dilemma is the collectivization of existing plots, which makes economic sense but is contrary to the campesino belief in the revolutionary slogan "Tierra y Libertad" (Land and Liberty). Finally, policy makers have to decide how many resources should be allocated to producing export crops to earn foreign exchange as opposed to striving for a higher level of domestic self-sufficiency in food production. There is an apparent trend toward the increased allocation of private (rather than public) resources to the production of high-value crops such as fresh and processed vegetables, coffee, etc. The objective is to earn the necessary foreign exchange for the purchase of imports to complement deficient domestic production of grains and oilseeds.

The widening gap between population growth and increase in agri-food output has made agriculture the Mexican government's highest priority at this time. The government has been involved in all aspects of the country's food system since the 1930s. Through CONASUPO, the national food agency, it has practised major subsidization of inputs and ensured a guaranteed market and prices. In an effort to develop and implement a comprehensive action program for agriculture, President Salinas appointed Carlos Hank Gonzales as the new Secretary of Agriculture. New policies for land tenancy and campesino organizations, more market-oriented prices, reduced tariffs, and the elimination of import permits are stated objectives of President Salinas' program of agriculture reform.

In the livestock and dairy sectors the government has established a policy framework that attempts to integrate domestic production objectives with government policy instruments (import tariffs, guaranteed prices, and elimination of export controls). Government in collaboration with the dairy sector has set a strategic objective of reducing Mexico's skim milk powder (SMP) imports by 40% by 1994. Imports totalled $465 million (US) in 1989, making Mexico the world's leading SMP importer. This policy is being fostered by higher guaranteed milk prices to producers, an increased tariff on SMP, and removal of tariffs on the imports of dairy animals.

In the beef and pork industries the government has developed a similar policy, which fosters increased meat production through a blend of pricing policies, increased tariffs on meat imports during the adjustment phase, and the removal of import tariffs on breeding animals. Concurrently the Mexican Department of Agriculture is privatizing a number of regional livestock development programs by transferring them to local livestock producer associations.

When Mexico joined GATT in 1986, it agreed to limit most tariffs at 50%, but has gone beyond that unilaterally by setting the maximum applied rate at 20%. It also agreed to reduce the number of products requiring import licences to the fullest extent possible. Instead of several hundred such products there are now only a few dozen. The erratic granting of such licences in the past discouraged trade and was the cornerstone of Mexico's import substitution strategy. In response to public pressure on the government, some import tariffs have recently been adjusted upward to the 20% level to protect some domestic industries. This is permitted by GATT during a five-year phase-in period.

As a result of the government's decision to deregulate and privatize wherever possible in the public sector, the role of CONASUPO in agri-food importing has been reduced. For example, the agency's grain and oilseed processing operation, which supplied 25% of the domestic market, has been privatized. In commodity operations (controlling guaranteed prices, domestic and international purchasing), its mandate is now confined to basic foodstuffs (corn, wheat, rice, dry beans, and skim milk powder). It must ensure the disposal of domestic production before these products can be imported.

Diversification of food import sources is also a trade policy objective. In the past year Mexico has opened up its market to imports of high-quality beef and pork, poultry, dairy products, selected fruits and vegetables, animal feed, and alcoholic beverages.

2. NORTH AMERICAN FREE TRADE NEGOTIATIONS

Canada, Mexico and the United States entered into formal negotiations in 1990 to conclude a North American Free Trade agreement. Canada is taking part in the negotiations for three major reasons:

- Canada must protect its interests and achieve the gains that result from liberalized trade.
- Canada is seeking improved access for its products to a burgeoning market of 85 million people, which could grow to 100 million by the year 2000.
- The Canadian and Mexican economies are complementary in a number of sectors and it is important that Canada has access as favourable as that of the United States.

While negotiations have progressed steadily, the upcoming U.S. elections in November 1993 may affect the duration of the process. Canada's agri-food industry is heavily dependent on exports. Exports as a percent of sales represent 22% of sales of food produced in Canada. This makes it imperative for Canada to secure access to new and expanding markets. Several products are considered to have increased export potential in the Mexican market. They include grains, pulses (lentils, coloured beans), canary seed, breeding stock (swine, dairy and beef cattle), seed potatoes, pork, edible offals, and processed food. Some of these products already enter Mexico duty-free.

During critical marketing periods, many Mexican agricultural products compete with identical produce from the southern United States. In contrast, Canada-Mexico agricultural trade is generally complementary. Canada is deficient in fresh fruits and vegetables for nine months of the year, while Mexico requires Canadian grains, oilseeds, and skim milk powder. Close to 75% of agricultural imports from Mexico ($82.1 million out of $110 million in 1989) already enter Canada duty-free under the MTN

tariff or General Preferential Tariff. About 90% of Canadian exports to Mexico currently enter that country duty-free.

The U.S. agriculture sectors which anticipate reaping the most benefits from NAFTA are: dairy, livestock and poultry, deciduous tree fruits, feed grains, and oilseeds. Competitive pressure from Mexican production will be greatest on Canadian and U.S. processed tomato products, frozen vegetables (broccoli and cauliflower), asparagus, strawberries, and fresh cut flowers.

3. EXPORT OPPORTUNITIES

3.1 General Environment

Mexico, for a variety of reasons, presents significant market opportunities for Canada if a number of constraints to trade can be overcome. In general, the optimistic outlook for Canadian products in the Mexican market is based on the following:

- Canada produces a surplus of agri-food products that are in short supply and high demand in the Mexican market.

- Canada has a location advantage in that Mexico is geographically closer to this country than it is to our other trading partners (except the United States).

- The Mexican government has recently taken positive steps to allow private industry more control over its business affairs while at the same time pursuing a policy of globalization and diversification of import sources in an attempt to reduce dependence on U.S. products.

- As the Mexican economy improves, per capita income will increase. Consumers will have more disposable income and can therefore purchase a greater quantity and variety of food products. At the same time the Mexican population is growing at 2.1% per year.

While there are significant opportunities for increased trade with Mexico, a number of constraints need to be addressed to achieve successful penetration into this market. The major constraints can be listed as follows:

- The United States has traditionally been the major exporter to Mexico due to its larger supply base and transportation advantage.

- The USDA commodity credit program offers credit guarantees of about $1.2 billion to Mexican buyers. The terms are more attractive than in the case of Canada's Agriculture Export Credits Insurance Program available from the Export Development Corporation (EDC).

- Canadian suppliers are generally not aggressive in this market.

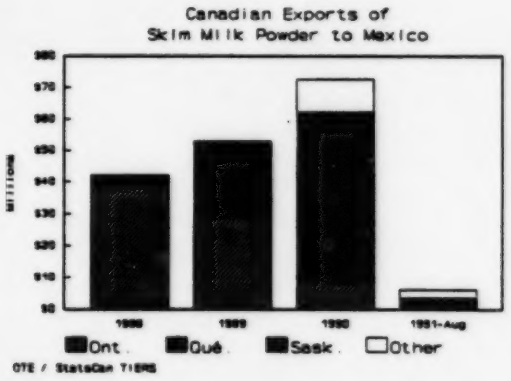
3.2 Agri-Food Export Market Analysis

Export market opportunities are identified and assessed for the following products; *dairy products*, primarily skim milk powder; meats, including *pork and beef*; *grains and oilseeds*, particularly canola; animal *genetics* in *swine, beef, and dairy*; *pulses*, including coloured beans, lentils and peas; *seed potatoes*; and *processed foods and beverages*.

3.21 DAIRY PRODUCTS

Growth and Size of Market

Dairy products, primarily skim milk powder (SMP), are Mexico's chief agri-food imports. The value of this import market reached over $465 million in 1989, and $507 million in the first 9 months of 1990. Mexico imported $45.4 million (US) of SMP from Canada in 1989 and $63.1 million in 1990. This SMP came from Quebec $36 million (US), Saskatchewan $10.2 million, Ontario $7 million, Alberta $6.7 million, and Manitoba $2.3 million. Over the long term, this market is likely to diminish if the Mexican government continues to support a policy of self-sufficiency in favour of the domestic dairy industry. In the near term, the size of the SMP market remains large.



Opportunities for Canada

By 1994, Mexico's goal is to replace 40% of SMP imports with local production. Even with these possible reductions there is still opportunity to increase Canada's share of the SMP import market share.

Competitive Analysis

Mexico is Canada's main milk powder market, even though it imported less than 10% of its total dry milk from Canada. The United States, New Zealand, the United Kingdom, and Ireland are other major suppliers. April 1991 SMP price quotes are at $1,700 (US) to $1,800 per MT, down from last year's $2,015 (FOB). While imports of milk are expected to drop significantly by 1994, the Mexican government plans to import 150,000 head of dairy cattle over the next four years.

Constraints

- Availability and profitability of SMP.

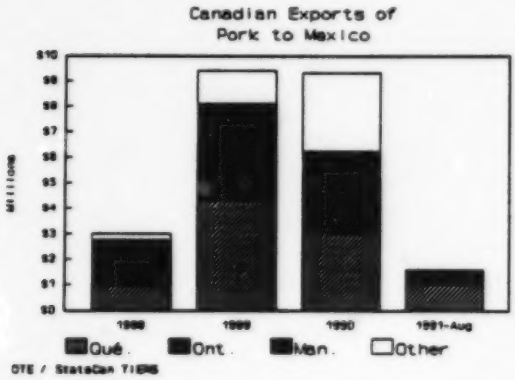
Possible Activities

- SMP sales are the responsibility of the Canadian Dairy Commission.

3.22 PORK

Growth and Size of Market

Mexico's total pork imports grew dramatically in 1988-89, creating an $80 million market, but declined in 1990. Shipments from the major supplier (United States) fell by 50%. Imports from Canada, though, increased in 1990 to $8.1 million (US), with Western Canada providing 43% and Eastern Canada 57%. Almost all trade occurred in the first half of 1990. The preliminary estimate for January 1991 is $0.21 million.



Opportunities for Canada

In 1989, Canada accounted for about 7.4% of world exports of pork (fresh, chilled or frozen) and had a 7.8% share of Mexican imports. Mexico accounted for only a little over 1% of world pork imports. The United States and Japan are Canada's principal pork export markets, followed by Mexico.

Competitive Analysis

Mexican demand for pork and the country's proximity to Canada point to opportunities. To protect domestic swine production, though, Mexico has introduced a 20% tariff on pork. Existing competition from the United States (with $15 million of CCC credit in 1991) and greater competition from Denmark, pose challenges for Canadian pork exporters.

In 1989, the United States accounted for 71% of Mexico's pork imports and almost all of the higher-value dried, cured and smoked pork market. In 1990, U.S. pork exports to Mexico fell by 50%. In 1991, $15 million (US) worth of credit guarantees from the CCC were available. As well, U.S. pork prices are expected to fall, given reduced Japanese demand.

With its lower pork prices and increased production, Denmark may also pressure Canada in this market. Denmark has the most diversified pork export market portfolio in the world. In 1989, Danish exports to Mexico were just over half of Canada's exports. Other EEC nations may also provide competition due to expected price reductions.

Constraints

- Mexican purchasers' lack of knowledge of Canadian pork and pork products.
- Proximity of U.S. suppliers and the USDA CCC credit program supporting sales to Mexico.
- Relatively higher Canadian product prices compare to international prices.

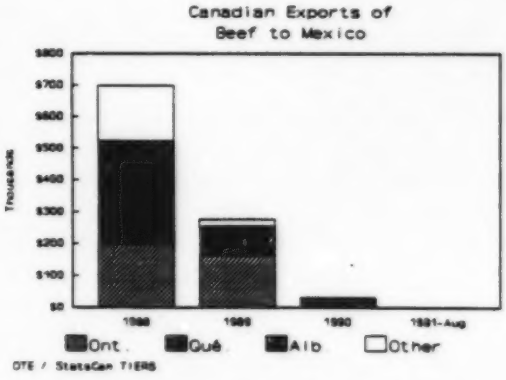
Possible Activities

- Canada Pork International Strategy.
- EDC for competitive agricultural export credit insurance.
- Market intelligence mission to assess needs for hotel and food services industry as well as a technical seminar in Mexico City.
- Development of promotional material in Spanish.

3.23 BEEF

Growth and Size of Market

Mexico's imports of beef and edible beef offal for the period from 1988 to 1990 amounts to an average of $127 million (US). During the same timeframe, the volume of beef meat import has steadily increased from 26.0 million tonnes to 41.2 million tonnes. As for beef offals, the volume has also increased from 41.9 million tonnes to 120.0 million tonnes during the same period. Consumption is highly dependent on purchasing power. Mexican imports of meat have traditionally complemented local production to satisfy domestic demand. They represented 3.5% of total demand in 1990. The northern states and a small group of wealthy consumers account for most of the Mexican demand. The country's cattle inventory declined as a result of the drought from 1987 to 1989. This may lead to a short-term increase in beef imports. However Mexico's beef imports from Canada have not reflected this tendency and export to Mexico actually decreased from $717,000 in 1988 to $31,000 in 1990.



Opportunities for Canada

The federal government of Mexico had traditionally regulated imports of beef products through the use of import barriers. However with the recent liberalization reform, trade barriers have been lifted and import tariffs are nil. Opportunities are mainly a function of expanding tourism (550,000 Canadians vacationed in Mexico in 1990), demand from high-income consumers, the growing purchasing power of the middle class, and the absence of import tariffs. Beef imports have increased in the economic upturn in Mexico as American cuts of beef are perceived to be luxury item.

Competitive Analysis

Beef imports of the United States, Canada and Mexico in the last five years (1985-89) totalled just over $6.2 billion (US). Of this, 20% was intra-trade, 33% from Australia, and 32% from New Zealand. The

remaining 15% came from various European and Central American countries. Mexico imports of beef are mainly supplied by the U.S. (91% of beef meat and 99% of beef offals).

Canada's share of the export market to Mexico is limited as the only $31,000 or 18,000 kg of beef sold in 1990 and about $2 million (or 1,408 tonnes) worth of beef offals. Offals will continue to represent good export opportunity because of Mexico's high demand for their products and the competitiveness of Canadian prices on offals. At present, Canadian beef is not competitive in Mexico. The largest buyer of American cuts (approximately 80%) continues to be hotels and restaurants. Canadian exporters should consider the possibility of shipping either carcasses or prime cuts to suit Mexican specifications. Mexicans prefer leaner and boneless cuts.

Constraints

- Canada's long-term ability to compete effectively with the United States, Australia and Nicaragua on the Mexican market.

Possible Activities

- Maintain share of Mexican edible offal imports.

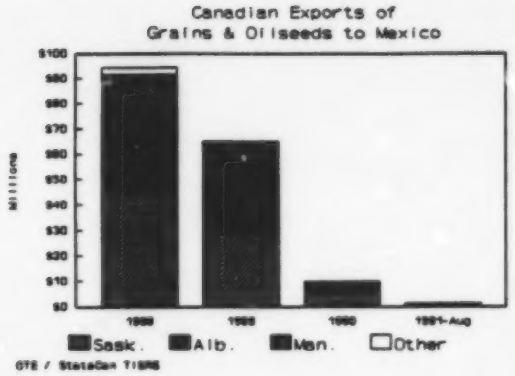
- Explore the market for high-quality beef in the food sector service.

3.24 GRAINS AND OILSEEDS

Growth and Size of Market

Grains and oilseeds have each represented about 21% of Mexico's total agricultural imports in recent years. In 1991 the crop is expected to be larger than it was in 1988, 1989 or 1990 (years of drought). Imports of grains are expected to remain about the same as they were last year.

Mexican imports of grains and oilseeds are substantial. They come primarily from the United States and ranged in value from $652 million (US) in 1986 to as much as $1.6 billion in 1989. Mexico's leading oilseed import is soybeans from the United States, although Canada has exported between $14 (US) and $74 million of canola and some linseed. Oilseed sales to Mexico have fallen sharply as a result of low-priced competition. In recent years, Mexico's leading grain import has been corn, although Canada has exported between $3 and $34 million of malting and feed barley, wheat, and other grains. These exports are a result of Canada's favourable supply, pricing and credit conditions during the sale negotiations.



Opportunities for Canada

Corn and soybeans are two of Mexico's leading agricultural imports. Canada does not compete directly with exporters of these commodities but instead satisfies several other import needs in the grains and oilseeds area. Canada is facing increased competition from European countries for some of these smaller but promising markets.

Competitive Analysis

Canada's performance in the grains sector continues to be limited by U.S. subsidization of its wheat and sorghum exports under that country's Export Enhancement Program (EEP) and Commodity Credit Program (CCP). Yet Mexican millers prefer Canadian wheat because of its superior quality.

Corn producers in Mexico have recently asked for the exclusion of corn and dry beans from NAFTA, given the lack of infrastructure in the area of domestic production. Currently imported corn is considered expensive and of inferior quality. Corn and dry beans are the only two crops that still benefit from the Mexican government's guaranteed pricing. An estimated 70% of all farmers in Mexico produce at least some corn.

Canada lost its share of Mexico's expanding oilseed and vegetable oil market to Poland, whose exports of low-priced LEAR (low erucic acid rapeseed) were up to $40 (US) per ton below Canadian prices. Highly subsidized rapeseed from the European Community may also affect the market.

CONASUPO agreed to purchase 200,000 MT of wheat from Canada during the summer of 1991.

Constraints

- Lack of knowledge of alternative Canadian grain products (e.g. rye for animal feed)
- Unfair competition in international grains and oilseeds markets (e.g. highly subsidized LEAR exports from Europe). It has been estimated that the EEC's annual oilseed subsidies total the amount of Canada's annual agricultural exports.
- U.S. corn and soybean domination of the grains and oilseeds sector as a result of the EEP and CCC program.

Possible Activities

- The Canadian Wheat Board will continue to strengthen its relationship with private Mexican millers.

- To maintain this country's position in the Mexican oilseed market, the Canola Council of Canada and the Grain Marketing Office have planned a number of activities including industry consultations, technology exchange and others.

3.25 BREEDING SWINE

Growth and Size of Market

In 1990, Mexico imported breeding swine valued at about $8 million. With 17 million head, Mexico's swine population ranks second in Latin America after Brazil, which has 33 million head. Canada's purebred swine exports totalled $541,687 in 1990 and its hybrid swine exports $701,764. Canadian swine exports to Mexico leaped from $145,000 in 1988 to $1.25 million in 1990. In early 1991, Canada exported about 3,000 head of purebred and hybrid swine per month.

Opportunities for Canada

The Mexican government has decided to protect Mexico's hog producers from low-priced imports by establishing a 20% tariff on pork. This, coupled with a zero tariff on breeding swine and reasonably priced soybeans, has prompted significant expansion of the Mexican hog industry. Mexico is considered a promising market for purebred and hybrid animals. In 1990, exports of Canadian breeding stock reached more than 16% of total Mexican imports, up from less than 5% of in 1987.

Competitive Analysis

Because of the high quality of Canadian swine genetics, many Mexican buyers are bypassing the United States and purchasing genetics in Canada to maintain a competitive edge. The industry is determined to ensure that only quality genetics are delivered to the Mexican market. The United States remains the main competition because of its financial incentives and geographic proximity.

Constraints

- A stronger Canadian commitment to the market is required.

- The small number of Canadian swine exporters.

Possible Activities

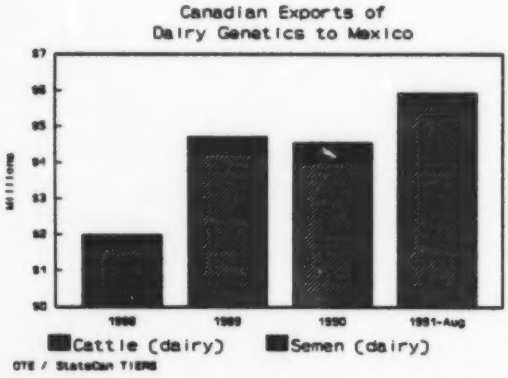
- Technical workshop mission to Mexico consisting of representatives of the Canadian swine industry and technical experts in areas of health, nutrition and genetics.

- To retain a Canadian swine industry expert to work closely with the Secretariat of Agriculture and Water Resources of Mexico on a swine development program.

3.26 DAIRY GENETICS

Growth and Size of Market

In 1990, dairy breeding stock imports from Canada (live animals, semen and embryos) totalled about $4.8 million, down slightly from $5.2 million registered in 1989. Over the past decade, Canada's exports to Mexico have averaged 7,500 head annually. In 1990, purebred breeding animal exports were limited to 654 head valued at about $4 million. Mexican imports of purebred cattle in 1990 from all countries were 247,369 head valued at about $15 million; dairy cattle imports totalled 91,215 head at $60 million.



Opportunities for Canada

The Mexican government plans to import 150,000 head of dairy cattle over the next four years. Most of these will likely come from the United States. Canadian exports of dairy bovine semen increased from $423,282 in 1989 to $507,097 in 1990. Given that Mexico intends to reduce SMP imports by 5% annually and Canadian exports total about $50 million, the annual shortfall for Canada would be $2.5 million. For Mexico to avoid this shortfall in satisfying its dairy needs, it would need to increase its imports of dairy cattle and semen. If Canadian live dairy cattle exports were to return to the levels of 7,500 head/year, this amount would represent a 21% share of the Mexican government's planned level of imports for the next four years.

Competitive Analysis

Currently the U.S. dominates the international trade of live dairy cattle and genetics. It also dominates trade with Mexico, holding over 90% of this import market. U.S. marketing programs are aggressive and are supported by a host of state and federal market development programs. The U.S. dairy cattle population is roughly seven times as large as its Canadian counterpart. In general, the U.S. cow population has a genetic advantage in terms of milk production. However, Canadian herds have an edge with respect to most conformation traits. Canadian and U.S. breeding philosophies differ, with the result that Canadian cows provide more lactations over a longer period of time than U.S. cows, which produce more milk over a shorter period.

Constraints

- Non-traditional Mexican purchasers lack knowledge of Canadian genetics.
- Mexico's proximity to U.S. market, availability of competitive credit.
- Canadian product prices.

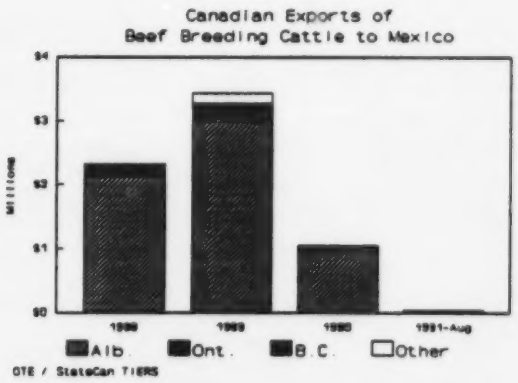
Possible Activities

- Dairy genetics AIMS strategy.
- Development of promotional material in Spanish.
- Technical seminars in conjunction with trade shows and National congresses.

3.27 BEEF BREEDING CATTLE

Growth and Size of Market

In 1989, Mexico imported $82 million (US) of beef cattle, of which $2.8 million were beef breeding cattle from Canada. Alberta is the major supplier of this market, building its trade on a well-established relationship between Mexican and Alberta ranchers and breed associations. This trade is driven by the premium price Mexican ranchers obtain for European-type feeder cattle in southern U.S. markets. Mexican ranchers continue to import Simmental, Limousin and other breeds to improve the genetic base of their cattle herds. There is currently no Mexican duty on imports of beef breeding animals.



Opportunities for Canada

The Mexican government's policy to increase self-sufficiency in beef and ultimately export beef to other countries bodes well for Canadian exports of European-type beef breeding animals.

Once Mexican ranchers complete their conversion of beef cattle genetics, demand will decline, probably starting in 1992 or 1993.

Competitive Analysis

Although the United States is a major supplier of breeding stock to Mexico, Alberta has maintained a strong position in this market thanks to its higher-quality animals and a concerted effort to service the Mexican market better than its competitors. Demand for this superior type of stock often exceeds supply, except in the case of Hereford.

Constraints

- Canada's ability to supply cheap credits to match the USDA CCC credit program.

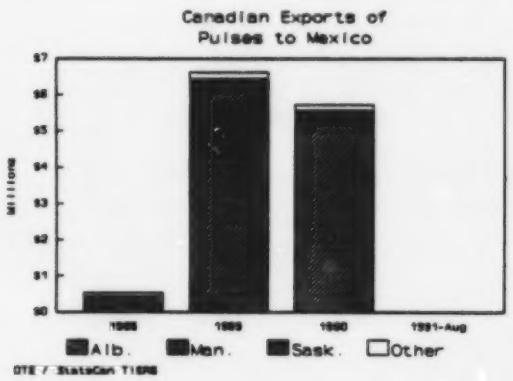
Possible Activities

- Support exporters and try to integrate their activity under a beef breeds AIMS strategy.

3.28 PULSES

Growth and Size of Market

Mexico is one of the world's leading consumers of edible dry beans. Annual demand averages about 1.0 million MT. In the last five years, Mexico's pulse imports have averaged $48.6 million annually, and Canada's share of this market has been growing. In 1990, Mexican imports of Canadian pulses totalled $10.7 million (US), up from $5.3 million in 1989. About $7.1 million worth of kidney beans were imported from Alberta. Dry bean consumption is substantially above last year's level, and this trend is likely to continue through 1991. The size of the import market fluctuates widely (see 1988 and 1989 figures) depending on the yield of domestic production.



Opportunities for Canada

There are no tariffs on dry beans, although an import permit is required. Small red beans have a 10% tariff, but no permit is required. Because the weather has unpredictable effects on Mexico's production, the size of the import market is difficult to determine. According to a USDA source, the Mexican government is not expecting to import dry beans during the 1991-92 season.

Competitive Analysis

Recent domestic price increases are prompting Mexican traders to search for lower-cost imports. To reduce shipping costs, traders near the U.S. border will import from the United States rather than purchase from other Mexican areas. Dry beans and corn are the only two crops benefiting from the Mexican government's guaranteed pricing. In 1989, Canada had a 7.8% share of the world's dry pulse export market. The bulk of exports currently go to Europe and the United States. The United States has a $31 million credit guarantee for pulses and provides the main competition in this market.

Constraints

- Uneven production greatly affects the capacity of Canadian industry to supply consistently a large market like that of Mexico. The country's fluctuating demand adds to the problem.
- Mexican buyers lack knowledge of the variety and quality of Canadian pulses available.

Possible Activities

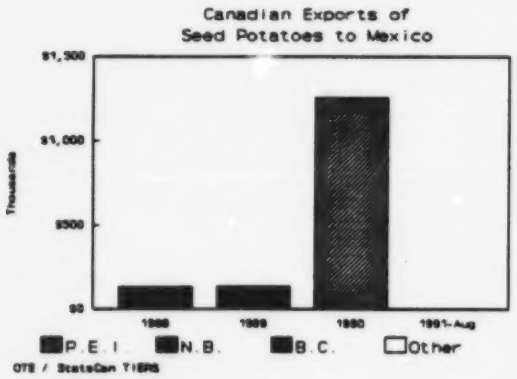
- Conduct a Canadian pulse industry mission to Mexico to promote the diversity and uses of Canadian pulses and meet with officials of CONASUPO.
- Canadian suppliers could grow product under contract for CONASUPO.

3.29 SEED POTATOES

Growth and Size of Market

Mexican imports of seed potatoes have been averaging only about $1.4 million. A small percentage of these imports are from Canada. Approximately 75,000 hectares of potatoes are planted in Mexico and they consist mostly the Alpha variety. With a higher Canadian market share, Canadian exports could reach between $3 to $4 million in the next few years. By comparison, countries such as Trinidad and Cuba import well over $3 million of seed potatoes from Canada.

Mexico will be importing more seed to increase its production of French fried potatoes. In 1989, New Brunswick exported $134,626 of seed potatoes to Mexico. In 1990, exports rose ninefold to $1.26 million and came mainly from Prince Edward Island during the Fall and Winter months. To date, all purchases from Canada have been of the Atlantic variety and these have gone for processing. However, the greatest potential for sales exists in the yellow-fleshed Alpha variety.



Opportunities for Canada

There is a shortage of seed potatoes in Mexico. Currently the expansion of the potato processing industry and the rapid development of fast food chains in Mexico have created a growing demand for seed potatoes. Local Mexican producers, and U.S., Canadian and Dutch suppliers are attempting to satisfy the market over the short term.

To respond to this growing market, Canadian seed potato growers may be required to produce new varieties.

A recent report by Potatoes Canada determined that the Alpha variety was favoured in Mexico for reasons of ease of production and transportation.

Competitive Analysis

Canada's main export market is the United States $81 million (US), although $37.4 million of potatoes were exported to Latin American countries in 1989. Of all Latin American potato imports in 1989, 46.3% came from Canada, 33% from the Netherlands, and 10% from the United States. This would suggest that a relatively high share of the Mexican potato import market is within reach.

In 1990, imports of yellow-fleshed varieties from the Netherlands made up for most of Mexico's seed potato production shortfall. In the past, tradition and consumer preference for yellow-fleshed potatoes have combined to limit Canadian exports to Mexico. While the Alpha variety may not yield well in Canada, production could be absorbed by the Mexican market. Our competitiveness in the Mexican market is influenced to an extent by Canadian producers' willingness to grow lower-yielding varieties.

Constraints

- Canada's lack of supply of the preferred Alpha variety.

Possible Activities

A Potatoes Canada AIMS strategy that would:

- Develop a more focused marketing plan for Mexico, with emphasis on the Atlantic variety, which Canada is better able to grow. (An example would be a 1992 Farmer Field Day to promote awareness and knowledge of Canadian varieties.)

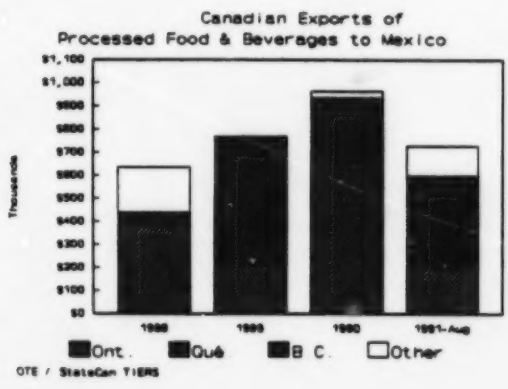
- Provide training for selected potato growers, especially those who produce for Frito-Lay, Mexico's leading marketer of potato products.

- Increase Canadian production of Alpha or other yellow-fleshed varieties for the Mexican market.

3.30 PROCESSED FOODS AND BEVERAGES

Growth and Size of Market

Mexican imports of processed foods and beverages are growing as a result of tariff reduction, increased urbanization and higher disposable income, and the low age structure in the population. Specialty food stores that promote only imported products (mainly from the United States) have opened in Mexico City and Guadalajara.



Opportunities for Canada

There are excellent opportunities for specialty bakery products (fancy biscuits), alcoholic beverages and bottled water. Some Canadian suppliers, (such as Dare Cookies of Canada) and some frozen salmon exporters, are taking advantage of these opportunities. Processed pork, seafood, fruit, frozen vegetables, wild rice and cheddar cheese, and Kosher products are other products offering potential. In addition, the growth in Mexico's fast food industry has increased the demand for frozen french fries. McCain Foods is now actively committed to this market. An expanding market also exists for various luxury products in the Mexican hotel and restaurant industry as a result of an increase in disposable income and a surge in tourism. One Canadian trader is supplying upscale restaurants in Mexico City with goose products. Another supplier is introducing flavoured Canadian bottled water to Mexico. Canada also supplies Mexico with rye whisky. A market study on the Mexican market for processed foods recently published by the Canadian Embassy in Mexico gives additional details on trade opportunities in this sector.

Competitive Analysis

The food processing sector is dominated by American--and to a lesser extent European--transnational corporations such as Nestlé, Campbell Soup and General Mills. Rather than importing, these companies buy Mexican raw products, add foreign processing, packaging and marketing technology, and resell them to Mexican consumers. The source and degree of competition for the processed foods market is dependent upon the specific export. However, it can be surmised that strong competition will come from the United States and that Europe, New Zealand and Australia will also be involved. Specific niche products where Canada has comparative advantages should be promoted.

Constraints

- Canada's ability to supply certain processed food products.
- Canadian suppliers misconception that Mexicans can not afford their products.

Possible Activities

- Solo food show by Canadian industry to carry out more aggressive promotion of competitive Canadian food products.
- Establishment of business alliances between Canadian suppliers and Mexican food product importers and distributors.
- Educating Export-ready Canadian suppliers to market opportunities in Mexico for processed food products.

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